

**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION**

Washington, D.C. 20554

In the Matter of)

Federal-State Joint Board)
on Universal Service)
_____)

CC Docket No. 96-45

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**Reply Comments of California Small Business Association
on the Federal State Joint Board's Recommended Decision**

Introduction

The California Small Business Association (CSBA) is a nonprofit organization which advocates on behalf of small businesses in California. CSBA regularly polls its members on public policy issues affecting small businesses including telecommunications and receives guidance from its California Small Business Round Table which consists of 40 leading small business owners from across the state. CSBA has 187,000 members, many of whom reside and have small businesses in rural and suburban areas. For this reason, we are vitally concerned that all residential and small business consumers have access to affordable basic and advanced services and submit the following reply comments regarding the *Joint Board's Recommendations*.

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I. The Commission Must Provide Universal Service Support for Small Businesses and Second Lines in High Cost Areas.

In their opening comments, several parties urge the Commission to eliminate all support for businesses in high cost areas.¹ These parties argue that even the smallest business can absorb any ensuing increase in their bills. We strongly disagree and join the U.S. Small Business Administration's Office of Advocacy in urging the Commission not to withdraw support for small businesses in high cost areas.

As the Office of Advocacy demonstrates in its opening comments, small businesses in rural areas operate on slim margins, have little ability pass on increased costs to consumers and thus are extremely vulnerable to increases in the cost of telecommunications services. This is true whether a small business has one, two, or more lines.

Consequently, many small businesses will be unable to afford the substantial rate increases which will follow the loss of universal service support. These businesses will be faced with the choice of cutting back their service to a single line, relocating to lower cost areas, or closing their doors entirely. This, of course, would be devastating to rural communities, many of which have been struggling to expand, attract and retain small businesses in their areas.

We also strongly oppose the Joint Board's recommendation to limit support to a

¹ See, for example, Comments of Airtouch Communications, Inc. at pp. 21-22.

single connection to a subscriber's principal residence and to single-connection businesses. Affordable second lines are essential to the development of home-based businesses, home-to-school connectivity, expanded Internet access for students and businesses, growth of small businesses and economic development in these areas.

Adopting the Joint Board's recommendation would threaten the affordability and availability of second lines in high cost areas. Indeed, in its comments to the California Public Utilities Commission, GTE of California, the state's second largest local exchange carrier, stated that if second lines are not a part of the definition of universal service: (1) no Carrier of Last Resort should be required to provide second line service against its will and (2) the price of second lines should be deregulated or at least raised to a proper measure of cost.²

We also note that carriers who would have to implement the Joint Board's recommendation have stated that limiting support to primary lines would be administratively expensive, intrude on customer privacy and ultimately be impractical and ineffective.³ For the reasons set forth above, we also oppose the Joint Board's suggestion that even the reduced level of support it recommends for single-connection businesses might be eliminated at some point in the future.

² Comments of GTE California Incorporated (U 1002 C) on Proposed Decision of ALJ Wong in R.95-01-020 / I. 95-01-021, August 26, 1996, at p. 17.

³ See Comments of Small Western LECs at p. 5, Comments of GTE Service Corporation at pp 77-83, Comments of US West at pp. 25-27, Comments of SBC Communications, Inc. at pp. 37-38, Comments of United States Telephone Association at pp. 30-31 and Comments of Rural Telephone Coalition at pp. 18-22.

These proposals to reduce and even eliminate all support for businesses in high cost areas would have additional consequences for rural communities. In these communities, local governments, water companies, volunteer fire departments and other public service enterprises rely on business telephone service which would receive no universal service support if the Joint Board's recommendation is adopted. Like small businesses in rural areas, many of these customers will be unable to afford the drastic increases in business rates which will follow from the elimination of universal service support.

For these reasons, we join with U.S. Small Business Administration, Minnesota Independent Coalition, Rural Telephone Coalition, and Small Western LECs in urging the Commission not to withdraw support for small businesses in high cost areas and to extend support beyond primary lines for residential consumers.

II. The Vast Majority of Parties Agree With the Principle that the Commission Must Provide a Reliable Means by Which Carriers May Recover the Cost of Contributing to the Universal Service Fund.

An overwhelming majority of the parties filing comments have stated that the Commission must establish a reliable means by which carriers may recover the cost of contributing to the universal service fund. These parties include state commissions, inter-exchange carriers, independent local exchange companies and RBOCs and others.⁴

⁴ See, for example, Comments of AT&T at pp. 8-10, Comments of Bell Atlantic at pp. 8, Comments of BellSouth at pp. 14-16, Comments of California Department of Consumer Affairs at

Like CSBA, these parties strongly disagree with the Joint Board's suggestion that section 254 bars such recovery. Indeed, many of these parties maintain that the Commission must provide an explicit means for carrier's to recover their contributions in order to meet section 254(d)'s requirement that the funding mechanism be "specific, predictable and sufficient."

The comments filed by the California Public Utilities Commission further demonstrate that states have adopted explicit surcharge mechanisms to fund universal service programs (often under the direction of their state legislatures) and expressly reject the Joint Board's view that section 254 prohibits such surcharges.⁵ As we pointed out in our opening comments, California is not alone in relying on such surcharges.⁶ A recent survey of state commissions reported that seven other states use such surcharges to fund universal service. Adopting the Joint Board's interpretation would wreak havoc on these programs and give rise to another legal confrontation between state and federal regulators over the proper interpretation of the Telecommunications Act.

pp. 38-40, Comments of California Public Utilities Commission at pp. 13-15, Comments of GTE Service Corporation at pp. 33-37, Comments of MFS Communications Company at pp. 12-13, 26, Comments of NYNEX at pp. 36-37, Comments of Pacific Telesis Group at pp. 20-23, Comments of SBC Communications, Inc. at pp. 11-13 and Comments of US West, Inc. at pp. 45-47.

⁵ Comments of California Public Utilities Commission at pp. 13-15.

⁶ See Comments of California Small Business Association at pp. 8-10.

III. The Vast Majority of Parties Agree That Revenues from Discretionary Services Should Not be Included in the Benchmark.

In our opening comments, we urged the Commission to reject the Joint Board's recommendation that revenues from discretionary services be included in calculating the benchmark. Among other things, we pointed out that such revenues were not a reliable source of funding universal service in rural areas where there is higher unemployment, lower per capita income and the local economies are more dependent on agriculture, recreation or other highly seasonal industries. We note that a large number of comments agree that discretionary services are an improper source of funding universal service in high cost areas.⁷

The few parties who support the Joint Board's recommendation regarding revenue from discretionary services urge the Commission to include all revenues generated per line regardless of their relationship to the definition of universal service or costs included in the proxy cost model.⁸ The Commission should reject these invitations to continue to rely on implicit subsidies to fund universal service. As we discussed in our opening comments, inclusion of discretionary services revenues would violate section 254(d)'s

⁷ See, for example, Comments of MCI Communications at pp. 8-10, Comments of GTE Service Corporation at pp. 19-24, Comments of Texas Public Utility Commission at pp. 5-8, Comments of Citizens Utility Company at pp. 24-25, Comments of SBC Communications, Inc. at p. 34, Comments of Sprint Corporation at pp. 18-20, Comments of Pacific Telesis Group at pp. 16-17, Comments of TCA, Inc. at p. 6, Comments of United States Telephone Association at pp. 10-11 and Comments of U.S. West, Inc. at pp. 29-30,

⁸ See, e.g., Comments of Teleport Communications Group, Inc. at pp. 6-7.

requirement that any mechanism adopted by the Commission be "specific, predictable and sufficient" to preserve and advance universal service.

Conclusion

For the reasons set forth above and in our opening comments, CSBA requests that this Commission (1) reject the *Joint Board's Recommendations* which understate costs and overstate revenues in determining the level of support for high cost areas, (2) establish a reliable means by which carriers may recover the cost of contributing to support universal service, (3) continue to provide universal service support for small businesses in high cost areas, (4) extend support to small businesses with more than one line and second residential lines, and (5) allow RBOCs to compete in inter-LATA markets on an expedited basis.

Date: January 9, 1997

By 

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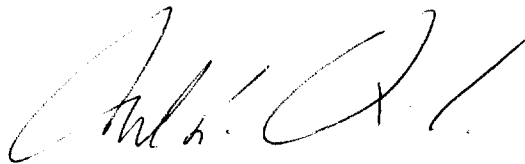
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Certificate of Service

Case: In the Matter of Federal State Joint Board on Universal Service (CC Docket No. 96-45).

I, Carl K. Oshiro hereby certify that I have upon this day served a copy of the attached *Reply Comments of California Small Business Association on the Federal State Joint Board Recommended Decision* by mailing a copy via first class mail upon all persons and entities on the service list for the above proceeding. (A list of the names and of the persons and entities served is attached to the original certificate filed with the Commission.)

Dated at San Francisco, California on January 10, 1997.



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CC Docket No. 96-45**

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